

**ABBE, INC.  
AND SUBSIDIARIES  
Cedar Rapids, Iowa**

**CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003**

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## Independent Auditor's Report

Board of Directors  
Abbe, Inc.  
Cedar Rapids, Iowa

We have audited the accompanying consolidated statements of financial position of Abbe, Inc. and subsidiaries as of June 30, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Abbe, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Abbe, Inc. and subsidiaries as of June 30, 2004 and 2003, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic consolidated financial statements taken as a whole.



Cedar Rapids, Iowa  
September 3, 2004

**FINANCIAL STATEMENTS**

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2004 and 2003**

**ASSETS**

	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,737,769	\$ 1,937,203
Cash, restricted, resident trust accounts	82,922	88,342
Certificates of deposit, current portion	178,607	-
Receivables:		
Accounts receivable, less allowance for doubtful accounts		
of \$100,000 in 2004 and \$115,000 in 2003	1,242,173	1,118,214
Contributions receivable, current portion	331,269	145,468
Prepaid expenses	<u>292,522</u>	<u>235,334</u>
Total current assets	<u>3,865,262</u>	<u>3,524,561</u>
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>		
Investments	167,218	-
Contributions receivable, less current portion above	<u>36,383</u>	<u>1,020</u>
Total investments and long-term receivables	<u>203,601</u>	<u>1,020</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	538,023	430,752
Buildings and improvements	3,655,041	3,273,684
Leasehold improvements	132,674	119,690
Furniture and equipment	2,063,233	1,673,991
Vehicles	<u>328,404</u>	<u>353,678</u>
Total	6,717,375	5,851,795
Less accumulated depreciation	<u>2,219,896</u>	<u>1,839,222</u>
Net property and equipment	<u>4,497,479</u>	<u>4,012,573</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 8,566,342</b></u>	<u><b>\$ 7,538,154</b></u>

## LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 426,010	\$ 363,070
Accrued expenses:		
Accrued vacations	667,186	603,252
Other accrued expenses	449,423	342,463
Due to government agencies, primarily to Linn County	63,220	308,105
Deferred income	17,248	16,920
Resident trust funds	82,922	88,342
Due to Delaware County, Penn Center, Inc.	-	12,083
Notes payable, current maturities	47,607	54,759
Current maturities of obligations under capital leases	<u>15,123</u>	<u>13,599</u>
Total current liabilities	<u>1,768,739</u>	<u>1,802,593</u>
<b>LONG-TERM LIABILITIES</b>		
Due to Linn County, Abbe Center for Community Mental Health, Inc.	102,842	102,842
Notes payable, less current maturities above	1,420,692	1,375,581
Obligations under capital leases, less current maturities above	<u>22,818</u>	<u>38,339</u>
Total long-term liabilities	<u>1,546,352</u>	<u>1,516,762</u>
Total liabilities	<u>3,315,091</u>	<u>3,319,355</u>
<b>NET ASSETS</b>		
Unrestricted	4,742,250	3,796,105
Temporarily restricted	491,412	422,694
Permanently restricted	<u>17,589</u>	<u>-</u>
Total net assets	<u>5,251,251</u>	<u>4,218,799</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$8,566,342</u>	<u>\$7,538,154</u>

These consolidated financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to consolidated financial statements.

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Client and resident fees	\$13,475,291	\$ -	\$ -
Grants	1,370,769	184,061	-
Auxiliary	221,025	-	-
Investment income	35,330	-	-
Rent	35,880	-	-
Contributions	416,159	36,383	-
Other	304,671	-	-
Net assets released from restrictions	<u>188,547</u>	<u>(188,547)</u>	<u>-</u>
 Total public support and revenue	 <u>16,047,672</u>	 <u>31,897</u>	 <u>-</u>
 <b>EXPENSES</b>			
Program services:			
Mental health services	5,283,567	-	-
Care facilities	6,451,439	-	-
Services for the aging	<u>2,357,290</u>	<u>-</u>	<u>-</u>
Total program services	<u>14,092,296</u>	<u>-</u>	<u>-</u>
Supporting services:			
Management and general	1,356,942	-	-
Fundraising	<u>14,949</u>	<u>-</u>	<u>-</u>
Total supporting services	<u>1,371,891</u>	<u>-</u>	<u>-</u>
 Total expenses	 <u>15,464,187</u>	 <u>-</u>	 <u>-</u>
 <b>CHANGE IN NET ASSETS</b>	 583,485	 31,897	 -
 <b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED FOR 2004</b>	 <u>4,158,765</u>	 <u>459,515</u>	 <u>17,589</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 4,742,250</u>	 <u>\$ 491,412</u>	 <u>\$ 17,589</u>

2003				
<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 13,475,291	\$ 12,843,086	\$ -	\$ -	\$ 12,843,086
1,554,830	717,134	142,048	-	859,182
221,025	196,785	-	-	196,785
35,330	19,328	-	-	19,328
35,880	30,645	-	-	30,645
452,542	77,754	-	-	77,754
304,671	356,945	-	-	356,945
-	153,458	(153,458)	-	-
<u>16,079,569</u>	<u>14,395,135</u>	<u>(11,410)</u>	<u>-</u>	<u>14,383,725</u>
5,283,567	4,876,000	-	-	4,876,000
6,451,439	6,153,293	-	-	6,153,293
2,357,290	1,539,718	-	-	1,539,718
<u>14,092,296</u>	<u>12,569,011</u>	<u>-</u>	<u>-</u>	<u>12,569,011</u>
1,356,942	1,423,370	-	-	1,423,370
14,949	6,629	-	-	6,629
<u>1,371,891</u>	<u>1,429,999</u>	<u>-</u>	<u>-</u>	<u>1,429,999</u>
<u>15,464,187</u>	<u>13,999,010</u>	<u>-</u>	<u>-</u>	<u>13,999,010</u>
615,382	396,125	(11,410)	-	384,715
<u>4,635,869</u>	<u>3,399,980</u>	<u>434,104</u>	<u>-</u>	<u>3,834,084</u>
<u>\$ 5,251,251</u>	<u>\$ 3,796,105</u>	<u>\$ 422,694</u>	<u>\$ -</u>	<u>\$ 4,218,799</u>

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.



**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2004 and 2003**

	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 615,382	\$ 384,715
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest and dividends reinvested	(212)	-
Unrealized (gain) loss on investments	(1,310)	4,621
Provision for bad debts	42,557	53,324
Depreciation	285,194	252,497
(Gain) loss on disposal of equipment	(2,808)	35,968
Contributions restricted for property and equipment	(23,145)	(89,277)
Net operating assets acquired in merger of Witwer Center, Inc.	25,878	-
Effects of changes in operating assets and liabilities:		
Cash, restricted, resident trust accounts	5,420	(11,799)
Receivables	(387,680)	157,854
Prepaid expenses	(57,188)	(28,724)
Accounts payable and accrued expenses	233,834	(152,103)
Due to government agencies	(244,885)	43,532
Deferred income	328	(20,265)
Resident trust funds	<u>(5,420)</u>	<u>11,799</u>
Net cash provided by operating activities	<u>485,945</u>	<u>642,142</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash acquired in merger of Witwer Center, Inc.	83,562	-
Proceeds from sale of equipment	3,425	-
Purchases of property and equipment	(737,390)	(156,643)
Proceeds from sale of investments	55,000	65,935
Purchases of investments	<u>(125,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(720,403)</u>	<u>(90,708)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	465,000	-
Payments on long-term debt	(439,124)	(100,560)
Payments on capital leases	(13,997)	(14,055)
Cash contributions received, restricted for property and equipment	<u>23,145</u>	<u>89,277</u>
Net cash provided by (used in) financing activities	<u>35,024</u>	<u>(25,338)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(199,434)	526,096
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,937,203</u>	<u>1,411,107</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$1,737,769</u></u>	<u><u>\$1,937,203</u></u>

These consolidated financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to consolidated financial statements.

**ABBE, INC. AND SUBSIDIARIES**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**June 30, 2004 and 2003**

Abbe, Inc. was incorporated on August 7, 1991 in the state of Iowa for the promotion of mental health care and the prevention of mental illness through community education. Abbe, Inc. is the sole voting member of the following entities:

The Abbe Center for Community Mental Health, Inc. (the Center) provides outpatient psychiatric services, psychotherapy and supportive treatment services for persons with mental health problems and psychiatric illnesses with the purpose of assisting those persons to prevent hospitalization and remain independently functioning in the community. These services are provided to residents of Linn, Jones and Benton counties and surrounding communities through service receipts from Linn, Jones and Benton counties.

The Abbe Center for Community Care, Inc. (the Care Facility) provides housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Linn County and surrounding communities through per diem rates from Linn County, state and federal programs, and charges to residents.

The Penn Center, Inc. provides housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Delaware County and surrounding communities through per diem rates from Delaware County, state and federal programs, and charges to residents.

Aging Services, Inc. provides assistance to the elderly in the Linn County area through adult day care services and home-based support services. These services are provided through cost-sharing between the individuals and funding sources.

Pentacrest, Inc. provides assistance to the elderly in the Johnson County area through adult day care services and home-based support services. These services are provided through cost-sharing between the individuals and funding sources.

Abbe Management Corporation was established for the purpose of managing and providing behavioral health care services in Linn County, Iowa and surrounding counties. These services are provided to the managed practices under a management fee arrangement.

Witwer Center, Inc. provides a place where the elderly can meet, receive services, and take part in activities which enhance their dignity and preserve their independence. The center is a Title VII nutrition site serving Cedar Rapids and surrounding communities with on site meals. Home delivered meals are provided for those unable to make it to the congregate meal sites.

The Organization's fiscal year ends on June 30. Significant accounting policies followed by the Organization are presented below.

**USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**ABBE, INC. AND SUBSIDIARIES**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**June 30, 2004 and 2003**

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of all entities described on the previous page. All significant intercompany accounts and transactions have been eliminated in consolidation.

**CASH EQUIVALENTS**

The Organization considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**ACCOUNTS RECEIVABLE**

Accounts receivable are uncollateralized customer obligations which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount. Account balances with invoices over ninety days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews individual accounts receivable balances that exceed ninety days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses. In addition, a general valuation allowance is established based principally on historical experience.

**INVESTMENTS**

Investments are carried at fair value, determined by quoted market prices, and the net appreciation or depreciation in fair value of investments is reported as an increase or decrease in unrestricted net assets. Interest and dividends are recorded as income when earned. Investment income is also reported in the statement of activities as unrestricted revenue.

**PROPERTY AND EQUIPMENT**

Purchased property and equipment is recorded at cost while contributed property and equipment is recorded at estimated fair value at the date of gift. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets. The depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

**ABBE, INC. AND SUBSIDIARIES**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**June 30, 2004 and 2003**

**NET ASSETS**

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

**Unrestricted**

Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

**Temporarily Restricted**

Temporarily restricted net assets includes contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

**Permanently Restricted**

Permanently restricted net assets includes contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

**SUPPORT AND REVENUE**

Client and resident fee revenue is recognized, at estimated collectable amounts, in the period the services are performed, net of third-party contractual adjustments and foregone charges for services and supplies furnished to clients who cannot pay. Fees received in advance of services performed are recorded as deferred income.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded as receivables and as support when received. Conditional contributions are not recorded until all conditions have been satisfied, at which time they are recognized as support. Advances received on conditional contributions are recorded as refundable advances until all conditions have been satisfied.

Bequests are recorded when the probate court declares the will valid and the amount is determinable.

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

**ABBE, INC. AND SUBSIDIARIES**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**June 30, 2004 and 2003**

**SUPPORT AND REVENUE (CONTINUED)**

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

**FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**INCOME TAXES**

All entities described above, with the exception of Abbe Management Corporation, are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

For Abbe Management Corporation, deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

This information is an integral part of the accompanying consolidated financial statements.

**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 1 - RESTATEMENT OF BEGINNING NET ASSETS**

Witwer Center, Inc. became an affiliate of the Organization, effective July 1, 2003. Witwer Center, Inc.'s net assets at the time of affiliation were \$417,070, which consisted of \$362,660 unrestricted, \$36,821 temporarily restricted, and \$17,589 permanently restricted net assets. The 2004 beginning net assets have been restated as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year, as previously stated	\$ 3,796,105	\$ 422,694	\$ -	\$4,218,799
Witwer Center, Inc. net assets, at time of affiliation	<u>362,660</u>	<u>36,821</u>	<u>17,589</u>	<u>417,070</u>
<b>Net assets, beginning of year, as restated for 2004</b>	<u><b>\$4,158,765</b></u>	<u><b>\$ 459,515</b></u>	<u><b>\$ 17,589</b></u>	<u><b>\$4,635,869</b></u>

**NOTE 2 - UNCONDITIONAL PROMISES TO GIVE**

Included in contributions receivable are the following unconditional promises to give:

	<u>2004</u>	<u>2003</u>
United Way	\$ 186,060	\$ 132,049
Building campaign pledges	<u>181,592</u>	<u>14,439</u>
<b>Total unconditional promises to give</b>	<u><b>\$ 367,652</b></u>	<u><b>\$ 146,488</b></u>
Amounts due in:		
Less than one year	\$ 331,269	\$ 145,468
One to five years	<u>36,383</u>	<u>1,020</u>
<b>Total</b>	<u><b>\$ 367,652</b></u>	<u><b>\$ 146,488</b></u>

**NOTE 3 - CONDITIONAL PROMISES TO GIVE**

The following conditional promises to give were not recognized as assets in the statement of financial position:

Conditional promise to give toward the Marion Milestones building project upon matching contributions of \$284,850 being raised by May 31, 2006	<u>\$ 284,850</u>
Conditional promise to give toward the Witwer Senior Center facility expansion and renovation upon incurrence of qualified reimbursable expenses	<u>\$ 298,230</u>

**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 4 - INVESTMENTS**

Investments consist of the following:

	<b>Market Value</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
Money market funds	\$ 6,213	\$ -
Long-term certificates of deposit	124,773	-
Marketable equity securities	<u>36,232</u>	<u>-</u>
	<u>\$ 167,218</u>	<u>\$ -</u>

**NOTE 5 - DEBT**

**Lines of credit**

The Organization has a line of credit agreement with a bank under which it can borrow up to \$300,000 in current notes payable. Borrowings under this agreement are unsecured and bear interest at .75% under the bank's prime rate. There are no borrowings outstanding under this agreement at June 30, 2004 and the agreement expires in November 2004. As part of the agreement with the bank, there are certain covenants that the Organization must comply with.

Aging Services, Inc. also has a line of credit agreement with a bank. The agreement authorizes maximum borrowings of \$500,000 with interest at 5.25%. The agreement extends through June 4, 2007. There were no outstanding borrowings at June 30, 2004.

**Long-term debt**

	<b><u>2004</u></b>	<b><u>2003</u></b>
Obligation due to Linn County for the Center initial reserve fund allocation. This obligation is due upon the Organization terminating certain services.	<u>\$ 102,842</u>	<u>\$ 102,842</u>
Obligation due to Delaware County for Penn Center care facility start-up costs. This obligation is due by June 2003 in a manner to be mutually agreed upon.	<u>\$ -</u>	<u>\$ 12,083</u>

Notes payable consists of the following:

Mortgage payable to bank, requiring quarterly, interest-only payments until March 2005 at which time monthly installments of \$3,756 will be required, including variable rate interest at 5.25% at June 30, 2004. Final payment is due in March 2020, secured by land and building.

\$ 465,000	\$ -
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**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 5 - DEBT (CONTINUED)**

Mortgage payable to bank, requiring monthly installments of \$2,950, including interest at 6.75% at June 30, 2003. Final balloon payment is due in August 2006, secured by land and building.

- 383,300

Office facility revenue bond issued by Linn County, Iowa, payable to bank. The bond requires monthly installments of \$7,323, including interest at 5.76% until February 2012 when the rate will be adjusted for the next ten years. Final balloon payment is due in January 2022, secured by land and building.

969,779 1,003,480

Note payable to GMAC Financial Services requiring monthly installments of \$447, including interest at 0%. Final payment is due in December 2007, and the note is secured by a vehicle.

18,767 24,129

Note payable to GMAC Financial Services requiring monthly installments of \$360, including interest at 0%. Final payment is due in December 2007, and the note is secured by a vehicle.

14,753 19,431

**Total**

1,468,299 1,430,340

Less current portion of notes payable

47,607 54,759

**Long-term portion of notes payable**

\$1,420,692 \$1,375,581

Future maturities of long-term debt are as follows:

**Year ending**  
**June 30,**

2005	\$ 47,607
2006	65,596
2007	171,648
2008	66,943
2009	66,396
Thereafter	<u>1,152,951</u>

**Total**

\$1,571,141

**Obligations under capital leases**

The Organization is leasing equipment under two capitalized leases, expiring in June 2005 and May 2007, respectively. The cost of the equipment, which is included in furniture and equipment, is \$66,710, and the accumulated depreciation is \$26,086 at June 30, 2004.



**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 5 - DEBT (CONTINUED)**

Future minimum lease payments under these leases are as follows:

**Year ending**  
**June 30,**

2005	\$ 18,063
2006	13,019
2007	<u>11,934</u>

Total minimum lease payments	43,016
Less amount representing interest	<u>5,075</u>

**Present value of minimum lease payments** \$ 37,941

**NOTE 6 - NATURE AND AMOUNT OF PERMANENT AND TEMPORARY RESTRICTIONS**

	<u><b>2004</b></u>	<u><b>2003</b></u>
Temporarily restricted net assets are available for the following purposes:		
Subsequent years operation	\$ 220,444	\$ 142,049
Subsequent years facility usage	<u>270,968</u>	<u>280,645</u>
<b>Total temporarily restricted net assets</b>	<u><u>\$ 491,412</u></u>	<u><u>\$ 422,694</u></u>

Permanently restricted net assets include endowments totaling \$17,589, which must be invested in perpetuity, the income from which is expendable on the Organization's operations.

**NOTE 7 - AGREEMENTS WITH LINN COUNTY**

Revenue generated from Linn County for the Care Facility, Center and Aging Services, Inc. were as follows for the years ended June 30, 2004 and 2003:

	<u><b>2004</b></u>	<u><b>2003</b></u>
Client and resident fees:		
Care Facility contract	\$2,699,118	\$2,223,090
Mental Health Center contract	928,552	976,350
Other grants and programs	<u>62,530</u>	<u>78,491</u>
<b>Total</b>	<u><u>\$3,690,200</u></u>	<u><u>\$3,277,931</u></u>

The Care Facility contract expires June 30, 2006.

Under the Mental Health Center contract, which expires June 30, 2006, Linn County authorizes who is eligible for services.

**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 8 - CASH FLOW DISCLOSURES**

Cash paid for interest was \$83,682 and \$94,268 for the years ended June 30, 2004 and 2003, respectively.

**NOTE 9 - OBLIGATIONS UNDER OPERATING LEASES**

The Care Facility leases facilities and equipment from Linn County under a lease expiring June 2006, but is cancellable by either party upon ninety days' notice. The annual rental totals \$175,000 and the Care Facility pays for certain maintenance, utilities and insurance costs.

Abbe Management Corporation and the Mental Health Center lease administrative and office space and other buildings under various leases expiring between October 2004 and October 2009. The leases require monthly payments totaling \$7,336.

The Center leases other facilities on a month-to-month basis, which includes the facilities of the Center.

The Organization is leasing various equipment under twenty-seven operating leases expiring between August 2004 and October 2007. The leases require monthly payments totaling \$7,513.

Lease expense for the years ended June 30, 2004 and 2003 was \$520,712 and \$455,699, respectively.

Future minimum lease payments for operating leases that have initial noncancelable lease terms in excess of one year, are as follows:

**Year ending**  
**June 30,**

2005	\$ 160,530
2006	148,554
2007	128,331
2008	105,716
2009	91,328
Thereafter	<u>29,344</u>
<b>Total</b>	<b><u>\$ 663,803</u></b>

**NOTE 10 - RETIREMENT PLANS**

The entities have a defined contribution retirement plan covering substantially all nonunion employees. Contributions, which are 6% of each covered employee's compensation up to \$70,000, totaled \$278,072 and \$297,736 for the years ended June 30, 2004 and 2003, respectively.

**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 10 - RETIREMENT PLANS (CONTINUED)**

The Care Facility also sponsors a retirement plan in accordance with a negotiated labor contract. The retirement plan covers all of their union employees. Contributions, which are based on varying rates for the hours worked by the employee, totaled \$115,062 and \$126,624 for the years ended June 30, 2004 and 2003, respectively.

**NOTE 11 - DONATED FACILITIES**

The annual use of Witwer Center, Inc.'s facilities is donated by Linn County, Iowa. At June 30, 2004 and 2003, the estimated rental values of these facilities, \$44,004 and \$44,326, respectively, have been reflected in the accompanying financial statements as support with a like amount included in occupancy expense.

**NOTE 12 - INCOME TAXES**

Deferred tax assets consist of the following:

	<u><b>2004</b></u>	<u><b>2003</b></u>
Tax benefit of net operating loss carryforwards	\$ 37,000	\$ 37,000
Valuation allowance	<u>(37,000)</u>	<u>(37,000)</u>
<b>Net deferred tax asset</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

A valuation allowance has been recorded on the deferred tax asset to reduce the total to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that the carryforwards are available to reduce taxable income.

Abbe Management Corporation has approximately \$175,000 available in net operating loss carryforwards which can be offset against future taxable income of the subsidiary. The carryforwards expire in various amounts from 2009 to 2023.

**NOTE 13 - SELF-INSURED DENTAL PLAN INFORMATION**

Dental claims of participants and dependents are processed by Employee Benefit Systems. The plan is responsible for paying dental benefits up to a pre-established maximum amount for any one participant or dependent. Claims in excess of this maximum are covered by a policy with an insurance company.

**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 13 - SELF-INSURED DENTAL PLAN INFORMATION (CONTINUED)**

Plan obligations at June 30, 2004 for dental claims incurred by active participants but not reported at that date are calculated based on claims submitted subsequent to year end and an estimate based on plan history for unremitted claims. There were no accrued plan obligations at June 30, 2004. Management believes this accrual is adequate based on information currently known. However, claim payments based on actual claims ultimately filed could differ materially from this estimate.

**NOTE 14 - PROPERTY LIEN**

In consideration of a contribution received from the City of Iowa City for the purchase and establishment of a facility to provide dependent care services to low-income persons who are elderly or disabled, a lien in the amount of \$300,000 has been established in favor of the City as lienholder upon the Pentacrest property. Repayment of the \$300,000 is required if the Organization does not continue to provide these services for a period of thirty years. The lien will expire in June 2032.

**NOTE 15 - SUBSEQUENT EVENT**

Aging Services, Inc. has plans to establish an adult day health center in Marion, Iowa. At June 30, 2004, property had been purchased, but renovating and equipping the facility is expected to take place in the following fiscal year. Total expected cost of renovating and equipping the facility is approximately \$600,000 and is expected to be funded by a capital fundraising campaign, which was in progress at June 30, 2004.

This information is an integral part of the accompanying consolidated financial statements.

## **SUPPLEMENTAL INFORMATION**

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**June 30, 2004**

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care, Inc.</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 821,984	\$ 59,694	\$ 201,274	\$ 177,282
Cash, restricted, resident trusts	-	-	-	62,615
Certificates of deposit, current portion	-	-	-	-
Accounts receivable, less allowance	1,580	-	706,582	225,407
Contribution receivable, current portion	-	-	-	-
Due from affiliates	460,161	43,239	533,948	41,843
Notes receivable, current portion	16,297	-	-	-
Prepaid expenses	<u>21,070</u>	<u>5,000</u>	<u>115,943</u>	<u>81,381</u>
Total current assets	<u>1,321,092</u>	<u>107,933</u>	<u>1,557,747</u>	<u>588,528</u>
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>				
Investments	41,057	-	-	-
Notes receivable, less current portion above	356,072	-	-	-
Contribution receivable, less current portion above	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments and long-term receivables	<u>397,129</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>PROPERTY AND EQUIPMENT</b>				
Land	197,750	-	-	-
Buildings and improvements	1,211,994	-	-	-
Leasehold improvements	-	1,545	36,528	62,202
Furniture and equipment	391,611	58,860	680,085	267,744
Vehicles	<u>10,555</u>	<u>-</u>	<u>63,288</u>	<u>215,921</u>
Total	1,811,910	60,405	779,901	545,867
Less accumulated depreciation	<u>353,179</u>	<u>30,634</u>	<u>653,095</u>	<u>380,802</u>
Net property and equipment	<u>1,458,731</u>	<u>29,771</u>	<u>126,806</u>	<u>165,065</u>
<b>TOTAL ASSETS</b>	<u><u>\$3,176,952</u></u>	<u><u>\$ 137,704</u></u>	<u><u>\$1,684,553</u></u>	<u><u>\$ 753,593</u></u>

<b><u>Penn Center, Inc.</u></b>	<b><u>Aging Services, Inc.</u></b>	<b><u>Pentacrest, Inc.</u></b>	<b><u>Witwer Center, Inc.</u></b>	<b><u>Total</u></b>	<b><u>Eliminations</u></b>	<b><u>Consolidated</u></b>
\$ 187,652	\$ 176,336	\$ 43,568	\$ 69,979	\$ 1,737,769	\$ -	\$ 1,737,769
20,307	-	-	-	82,922	-	82,922
-	-	-	178,607	178,607	-	178,607
88,709	125,904	64,791	29,200	1,242,173	-	1,242,173
-	283,207	9,919	38,143	331,269	-	331,269
14,380	40,400	-	36,309	1,170,280	1,170,280	-
-	-	-	-	16,297	16,297	-
<u>24,040</u>	<u>37,563</u>	<u>4,441</u>	<u>3,084</u>	<u>292,522</u>	<u>-</u>	<u>292,522</u>
<u>335,088</u>	<u>663,410</u>	<u>122,719</u>	<u>355,322</u>	<u>5,051,839</u>	<u>1,186,577</u>	<u>3,865,262</u>
-	-	-	167,218	208,275	41,057	167,218
-	-	-	-	356,072	356,072	-
<u>-</u>	<u>36,383</u>	<u>-</u>	<u>-</u>	<u>36,383</u>	<u>-</u>	<u>36,383</u>
<u>-</u>	<u>36,383</u>	<u>-</u>	<u>167,218</u>	<u>600,730</u>	<u>397,129</u>	<u>203,601</u>
-	190,273	150,000	-	538,023	-	538,023
-	1,732,303	710,744	-	3,655,041	-	3,655,041
21,325	2,286	-	8,788	132,674	-	132,674
82,690	291,596	41,939	248,708	2,063,233	-	2,063,233
<u>38,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>328,404</u>	<u>-</u>	<u>328,404</u>
<u>142,655</u>	<u>2,216,458</u>	<u>902,683</u>	<u>257,496</u>	<u>6,717,375</u>	<u>-</u>	<u>6,717,375</u>
<u>98,296</u>	<u>394,837</u>	<u>96,399</u>	<u>212,654</u>	<u>2,219,896</u>	<u>-</u>	<u>2,219,896</u>
<u>44,359</u>	<u>1,821,621</u>	<u>806,284</u>	<u>44,842</u>	<u>4,497,479</u>	<u>-</u>	<u>4,497,479</u>
<u>\$ 379,447</u>	<u>\$2,521,414</u>	<u>\$ 929,003</u>	<u>\$ 567,382</u>	<u>\$10,150,048</u>	<u>\$ 1,583,706</u>	<u>\$ 8,566,342</u>

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**June 30, 2004**

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care, Inc.</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 46,761	\$ 96,647	\$ 65,078	\$ 112,170
Accrued expenses:				
Accrued vacations	130,757	-	232,475	212,993
Other accrued expenses	46,953	-	129,144	143,565
Due to government agencies, primarily to Linn County	-	-	-	63,220
Due to affiliates	812,370	-	-	102,542
Deferred income	16,920	-	-	328
Resident trust funds	-	-	-	62,615
Due to Delaware County, Penn Center, Inc.	-	-	-	-
Notes payable, current maturities	32,876	-	5,362	-
Current maturities of obligations under capital leases	<u>-</u>	<u>-</u>	<u>10,420</u>	<u>4,703</u>
Total current liabilities	<u>1,086,637</u>	<u>96,647</u>	<u>442,479</u>	<u>702,136</u>
<b>LONG-TERM LIABILITIES</b>				
Due to Linn County, Abbe Center for Community Mental Health, Inc.	-	-	102,842	-
Notes payable, less current maturities above	936,903	-	13,405	-
Obligations under capital leases, less current maturities above	<u>-</u>	<u>-</u>	<u>22,818</u>	<u>-</u>
Total long-term liabilities	<u>936,903</u>	<u>-</u>	<u>139,065</u>	<u>-</u>
Total liabilities	<u>2,023,540</u>	<u>96,647</u>	<u>581,544</u>	<u>702,136</u>
<b>NET ASSETS</b>				
Unrestricted	1,153,412	(264,685)	1,103,009	51,457
Temporarily restricted	-	-	-	-
Common stock	-	40,000	-	-
Additional paid-in capital	-	265,742	-	-
Permanently restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>1,153,412</u>	<u>41,057</u>	<u>1,103,009</u>	<u>51,457</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$3,176,952</u></u>	<u><u>\$ 137,704</u></u>	<u><u>\$1,684,553</u></u>	<u><u>\$ 753,593</u></u>



<u>Penn Center, Inc.</u>	<u>Aging Services, Inc.</u>	<u>Pentacrest, Inc.</u>	<u>Witwer Center, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 41,150	\$ 28,646	\$ 21,813	\$ 13,745	\$ 426,010	\$ -	\$ 426,010
37,584	28,537	9,347	15,493	667,186	-	667,186
41,062	48,977	20,548	19,174	449,423	-	449,423
-	-	-	-	63,220	-	63,220
-	153,351	102,017	-	1,170,280	1,170,280	-
-	-	-	-	17,248	-	17,248
20,307	-	-	-	82,922	-	82,922
-	-	-	-	-	-	-
4,318	5,051	16,297	-	63,904	16,297	47,607
-	-	-	-	15,123	-	15,123
<u>144,421</u>	<u>264,562</u>	<u>170,022</u>	<u>48,412</u>	<u>2,955,316</u>	<u>1,186,577</u>	<u>1,768,739</u>
-	-	-	-	102,842	-	102,842
10,435	459,949	356,072	-	1,776,764	356,072	1,420,692
-	-	-	-	22,818	-	22,818
<u>10,435</u>	<u>459,949</u>	<u>356,072</u>	<u>-</u>	<u>1,902,424</u>	<u>356,072</u>	<u>1,546,352</u>
<u>154,856</u>	<u>724,511</u>	<u>526,094</u>	<u>48,412</u>	<u>4,857,740</u>	<u>1,542,649</u>	<u>3,315,091</u>
224,591	1,623,155	123,388	463,238	4,477,565	(264,685)	4,742,250
-	173,748	279,521	38,143	491,412	-	491,412
-	-	-	-	40,000	40,000	-
-	-	-	-	265,742	265,742	-
-	-	-	17,589	17,589	-	17,589
<u>224,591</u>	<u>1,796,903</u>	<u>402,909</u>	<u>518,970</u>	<u>5,292,308</u>	<u>41,057</u>	<u>5,251,251</u>
<u>\$ 379,447</u>	<u>\$2,521,414</u>	<u>\$ 929,003</u>	<u>\$ 567,382</u>	<u>\$10,150,048</u>	<u>\$ 1,583,706</u>	<u>\$ 8,566,342</u>

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2004**

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care, Inc.</u>
<b>PUBLIC SUPPORT AND REVENUE</b>				
Client and resident fees	\$ -	\$ -	\$5,283,279	\$ 5,554,017
Administrative services	1,224,984	-	-	-
Grants	-	-	142,582	-
Auxiliary	-	-	-	171,812
Investment income	8,277	612	13,745	1,933
Rent	44,220	-	-	-
Contributions	11,403	-	6,610	787
Other	3,976	23,769	202,735	28,534
Equity in net profit (loss) of affiliates	<u>(4,616)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>1,288,244</u>	<u>24,381</u>	<u>5,648,951</u>	<u>5,757,083</u>
<b>EXPENSES</b>				
Program services:				
Mental health services	-	-	5,283,567	-
Care facilities	-	-	-	5,065,182
Services for the aging	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total program services	<u>-</u>	<u>-</u>	<u>5,283,567</u>	<u>5,065,182</u>
Supporting services:				
Management and general	1,302,053	28,997	371,384	646,900
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total supporting services	<u>1,302,053</u>	<u>28,997</u>	<u>371,384</u>	<u>646,900</u>
Total expenses	<u>1,302,053</u>	<u>28,997</u>	<u>5,654,951</u>	<u>5,712,082</u>
<b>CHANGE IN NET ASSETS</b>	(13,809)	(4,616)	(6,000)	45,001
<b>NET ASSETS, BEGINNING</b>	<u>1,167,221</u>	<u>45,673</u>	<u>1,109,009</u>	<u>6,456</u>
<b>NET ASSETS, ENDING</b>	<u>\$1,153,412</u>	<u>\$ 41,057</u>	<u>\$1,103,009</u>	<u>\$ 51,457</u>

<b><u>Penn Center, Inc.</u></b>	<b><u>Aging Services, Inc.</u></b>	<b><u>Pentacrest, Inc.</u></b>	<b><u>Witwer Center, Inc.</u></b>	<b><u>Total</u></b>	<b><u>Eliminations</u></b>	<b><u>Consolidated</u></b>
\$ 1,572,651	\$ 751,622	\$ 313,722	\$ -	\$13,475,291	\$ -	\$13,475,291
-	-	-	-	1,224,984	(1,224,984)	-
-	725,253	73,023	618,972	1,559,830	(5,000)	1,554,830
49,213	-	-	-	221,025	-	221,025
1,101	184	64	10,659	36,575	(1,245)	35,330
-	-	18,960	-	63,180	(27,300)	35,880
3,179	292,942	15,943	121,678	452,542	-	452,542
953	34,020	-	10,684	304,671	-	304,671
			-	(4,616)	4,616	-
<u>1,627,097</u>	<u>1,804,021</u>	<u>421,712</u>	<u>761,993</u>	<u>17,333,482</u>	<u>(1,253,913)</u>	<u>16,079,569</u>
-	-	-	-	5,283,567	-	5,283,567
1,386,257	-	-	-	6,451,439	-	6,451,439
-	1,361,124	382,618	642,093	2,385,835	(28,545)	2,357,290
<u>1,386,257</u>	<u>1,361,124</u>	<u>382,618</u>	<u>642,093</u>	<u>14,120,841</u>	<u>(28,545)</u>	<u>14,092,296</u>
93,996	101,596	24,000	18,000	2,586,926	(1,229,984)	1,356,942
-	13,535	1,414	-	14,949	-	14,949
<u>93,996</u>	<u>115,131</u>	<u>25,414</u>	<u>18,000</u>	<u>2,601,875</u>	<u>(1,229,984)</u>	<u>1,371,891</u>
<u>1,480,253</u>	<u>1,476,255</u>	<u>408,032</u>	<u>660,093</u>	<u>16,722,716</u>	<u>(1,258,529)</u>	<u>15,464,187</u>
146,844	327,766	13,680	101,900	610,766	4,616	615,382
<u>77,747</u>	<u>1,469,137</u>	<u>389,229</u>	<u>417,070</u>	<u>4,681,542</u>	<u>(45,673)</u>	<u>4,635,869</u>
<u>\$ 224,591</u>	<u>\$1,796,903</u>	<u>\$ 402,909</u>	<u>\$ 518,970</u>	<u>\$ 5,292,308</u>	<u>\$ (41,057)</u>	<u>\$ 5,251,251</u>

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2004**

	<b><u>Program Services</u></b>	<b><u>Supporting Services</u></b>	<b><u>Total</u></b>
Personnel:			
Wages and salaries	\$ 8,015,165	\$ 576,625	\$ 8,591,790
Employee benefits	1,608,792	183,722	1,792,514
Payroll taxes	568,130	41,683	609,813
	<u>10,192,087</u>	<u>802,030</u>	<u>10,994,117</u>
Resident services:			
Food	571,356	-	571,356
Pharmacy and medical supplies	190,361	-	190,361
Other services	148,152	-	148,152
	<u>909,869</u>	<u>-</u>	<u>909,869</u>
Consulting fees	305,865	-	305,865
Staff development	37,697	14,475	52,172
Computer services	181,354	22,867	204,221
Telephone services	94,746	22,201	116,947
Professional fees	14,884	67,926	82,810
Insurance	385,922	31,307	417,229
Advertising	40,393	1,025	41,418
Dues and subscriptions	19,625	804	20,429
Other	474,371	88,801	563,172
Occupancy	790,182	29,762	819,944
Supplies	335,674	54,038	389,712
Repairs	102,759	17,141	119,900
Provision for doubtful accounts	-	42,557	42,557
Depreciation	186,010	99,184	285,194
Interest	20,858	62,824	83,682
Fundraising supplies	-	14,949	14,949
	<u>2,990,340</u>	<u>569,861</u>	<u>3,560,201</u>
<b>Total expenses</b>	<b><u>\$14,092,296</u></b>	<b><u>\$1,371,891</u></b>	<b><u>\$ 15,464,187</u></b>

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES**  
**PROGRAM SERVICES**  
**Year Ended June 30, 2004**

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care, Inc.</u>
Personnel:				
Wages and salaries	\$ -	\$ -	\$3,443,501	\$ 2,701,870
Employee benefits	-	-	390,493	804,443
Payroll taxes	-	-	223,846	202,771
	<u>-</u>	<u>-</u>	<u>4,057,840</u>	<u>3,709,084</u>
Resident services:				
Food	-	-	-	296,823
Pharmacy and medical supplies	-	-	-	161,042
Other services	-	-	-	102,141
	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,006</u>
Consulting fees	-	-	242,864	125
Staff development	-	-	18,939	11,852
Computer services	-	-	155,121	12,217
Telephone services	-	-	41,489	25,538
Professional fees	-	-	2,096	4,252
Insurance	-	-	147,361	134,851
Advertising	-	-	25,213	2,291
Dues and subscriptions	-	-	16,359	645
Other	-	-	144,701	78,794
Occupancy	-	-	314,752	337,344
Supplies	-	-	76,993	106,671
Repairs	-	-	245	56,262
Depreciation	-	-	39,594	25,250
Interest	-	-	-	-
	<u>-</u>	<u>-</u>	<u>1,225,727</u>	<u>796,092</u>
<b>Total program services</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,283,567</u>	<u>\$ 5,065,182</u>

<b><u>Penn Center, Inc.</u></b>	<b><u>Aging Services, Inc.</u></b>	<b><u>Pentacrest, Inc.</u></b>	<b><u>Witwer Center, Inc.</u></b>	<b><u>Total</u></b>	<b><u>Eliminations</u></b>	<b><u>Consolidated</u></b>
\$ 732,097	\$ 684,672	\$ 184,650	\$ 268,375	\$ 8,015,165	\$ -	\$ 8,015,165
242,174	125,230	29,817	16,635	1,608,792	-	1,608,792
54,481	52,307	13,756	20,969	568,130	-	568,130
<u>1,028,752</u>	<u>862,209</u>	<u>228,223</u>	<u>305,979</u>	<u>10,192,087</u>	<u>-</u>	<u>10,192,087</u>
100,908	-	-	173,625	571,356	-	571,356
29,319	-	-	-	190,361	-	190,361
32,674	-	13,337	-	148,152	-	148,152
<u>162,901</u>	<u>-</u>	<u>13,337</u>	<u>173,625</u>	<u>909,869</u>	<u>-</u>	<u>909,869</u>
-	49,164	3,475	10,237	305,865	-	305,865
1,068	3,755	608	1,475	37,697	-	37,697
348	13,113	555	-	181,354	-	181,354
7,632	14,518	2,031	3,538	94,746	-	94,746
-	5,354	-	3,182	14,884	-	14,884
44,141	37,912	12,092	9,565	385,922	-	385,922
591	10,322	1,723	253	40,393	-	40,393
115	2,035	471	-	19,625	-	19,625
21,061	174,686	14,468	40,661	474,371	-	474,371
53,339	50,184	17,859	44,004	817,482	(27,300)	790,182
34,447	58,479	28,440	30,644	335,674	-	335,674
20,220	13,647	6,262	6,123	102,759	-	102,759
11,642	65,746	30,971	12,807	186,010	-	186,010
-	-	22,103	-	22,103	(1,245)	20,858
<u>194,604</u>	<u>498,915</u>	<u>141,058</u>	<u>162,489</u>	<u>3,018,885</u>	<u>(28,545)</u>	<u>2,990,340</u>
<u>\$ 1,386,257</u>	<u>\$1,361,124</u>	<u>\$ 382,618</u>	<u>\$ 642,093</u>	<u>\$14,120,841</u>	<u>\$ (28,545)</u>	<u>\$14,092,296</u>

**ABBE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES**  
**SUPPORTING SERVICES**  
**Year Ended June 30, 2004**

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care, Inc.</u>
<b>Management and General</b>				
Personnel:				
Wages and salaries	\$ 576,625	\$ -	\$ -	\$ -
Employee benefits	183,722	-	-	-
Payroll taxes	41,683	-	-	-
	<u>802,030</u>	<u>-</u>	<u>-</u>	<u>-</u>
Resident services:				
Food	-	-	-	-
Pharmacy and medical supplies	-	-	-	-
Other services	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Administrative fee	-	18,000	339,996	633,996
Staff development	14,475	-	-	-
Computer services	22,867	-	-	-
Telephone services	22,201	-	-	-
Professional fees	67,926	-	-	-
Insurance	31,307	-	-	-
Advertising	1,025	-	-	-
Dues and subscriptions	804	-	-	-
Other	91,372	2,429	-	-
Occupancy	29,762	-	-	-
Supplies	54,038	-	-	-
Repairs	17,141	-	-	-
Provision for doubtful accounts	-	-	28,157	11,880
Depreciation	90,616	8,568	-	-
Interest	56,489	-	3,231	1,024
	<u>500,023</u>	<u>28,997</u>	<u>371,384</u>	<u>646,900</u>
<b>Fundraising</b>				
Supplies	-	-	-	-
<b>Total supporting services</b>	<u>\$1,302,053</u>	<u>\$ 28,997</u>	<u>\$ 371,384</u>	<u>\$ 646,900</u>

<b><u>Penn Center, Inc.</u></b>	<b><u>Aging Services, Inc.</u></b>	<b><u>Pentacrest, Inc.</u></b>	<b><u>Witwer Center, Inc.</u></b>	<b><u>Total</u></b>	<b><u>Eliminations</u></b>	<b><u>Consolidated</u></b>
\$ -	\$ -	\$ -	\$ -	\$ 576,625	\$ -	\$ 576,625
-	-	-	-	183,722	-	183,722
-	-	-	-	41,683	-	41,683
-	-	-	-	802,030	-	802,030
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
93,996	96,996	24,000	18,000	1,224,984	(1,224,984)	-
-	-	-	-	14,475	-	14,475
-	-	-	-	22,867	-	22,867
-	-	-	-	22,201	-	22,201
-	-	-	-	67,926	-	67,926
-	-	-	-	31,307	-	31,307
-	-	-	-	1,025	-	1,025
-	-	-	-	804	-	804
-	-	-	-	93,801	(5,000)	88,801
-	-	-	-	29,762	-	29,762
-	-	-	-	54,038	-	54,038
-	-	-	-	17,141	-	17,141
-	2,520	-	-	42,557	-	42,557
-	-	-	-	99,184	-	99,184
-	2,080	-	-	62,824	-	62,824
93,996	101,596	24,000	18,000	1,784,896	(1,229,984)	554,912
-	13,535	1,414	-	14,949	-	14,949
\$ 93,996	\$ 115,131	\$ 25,414	\$ 18,000	\$ 2,601,875	\$ (1,229,984)	\$ 1,371,891



**ABBE, INC. AND SUBSIDIARIES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2005**

<b><u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u></b>	<b><u>CFDA Number</u></b>	<b><u>Grant Number</u></b>	<b><u>Expenditures</u></b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through Heritage Area Agency on Aging:			
Special Programs for the Aging, Title III, Part B	93.044	-	\$45,493
Special Programs for the Aging, Title III, Part C	93.045	-	262,293
Aging Services	93.048	-	44,267
Adult Day Care	93.052	-	<u>1,558</u>
			353,611
Passed through State of Iowa Dept. of Human Services, Division of Behavioral, Developmental and Protective Services:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	05-0444-401-6890-2597-01	31,127
Block Grants for Community Mental Health Services	93.958	05-0324-041-6440-1240-01	<u>68,533</u>
			<u>453,271</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through State of Iowa Dept. of Education, Bureau of Food and Nutrition:			
Child and Adult Care Food Program	10.558	52-9501	41,907
Child and Adult Care Food Program	10.558	57-9501	14,548
Passed through Heritage Area Agency on Aging:			
Nutrition Services Incentive	10.570	-	<u>112,746</u>
			169,201
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed through City of Cedar Rapids	14.221		<u>6,145</u>
<b>TOTAL</b>			<u><u>\$628,617</u></u>

This schedule should be read only in connection with the  
accompanying notes to the schedule of expenditures of federal awards.

**ABBE, INC. AND SUBSIDIARIES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

This information is an integral part of the accompanying schedule  
of expenditures of federal awards.

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other  
Matters Based on Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Board of Directors  
Abbe, Inc.  
Cedar Rapids, Iowa

We have audited the consolidated financial statements of Abbe, Inc. and subsidiaries as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above (item 2004-1) is not a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Gunderson LLP*

Cedar Rapids, Iowa  
September 3, 2004

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Abbe, Inc.  
Cedar Rapids, Iowa

**Compliance**

We have audited the compliance of Abbe, Inc. and subsidiaries with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

**Internal Control Over Compliance**

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above (item 2004-A) is not a material weakness.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Gunderson LLP*

Cedar Rapids, Iowa  
September 3, 2004

**ABBE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2004**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ yes   X   no
- Reportable condition identified that are not considered to be material weaknesses?   X   yes \_\_\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

**Federal Awards**

Internal control over major programs:

- Material weakness identified? \_\_\_\_\_ yes   X   no
- Reportable condition identified that are not considered to be material weakness?   X   yes \_\_\_\_\_ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes   X   no

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.044/93.045	Special Programs for the Aging, Title III

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding No. 2004-1: Segregation of Duties**

Criteria:

The Organization should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The Organization does not have adequate segregation of duties over all accounting transactions.

**ABBE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2004**

**Context:**

Internal controls that are in place could be averted, overridden, or not consistently implemented.

**Effect:**

As result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

**Cause:**

The Organization has a limited number of personnel performing accounting functions.

**Recommendation:**

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the Organization review its operating procedures to obtain the maximum internal control possible under the circumstances.

**Management Response:**

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.



**ABBE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2004**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding No. 2004-A: Segregation of Duties**

CFDA # 93.044/93.045, U.S. Department of Health and Human Services, passed through the Heritage Area Agency on Aging.

See Finding No. 2004-1, reported in Section II of this schedule, for comments.

**ABBE, INC.**  
**CORRECTIVE ACTION PLAN**  
**Year Ended June 30, 2004**

**Finding No. 2004-1 and 2004-A: Segregation of Duties**

The Finance Committee will continue to monitor monthly financial results. The Finance Committee will also continue to monitor this situation and will segregate accounting duties where possible.

**ABBE, INC.**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2004**

There were no prior audit findings to report on.